



**CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD**

ANNEXURE 14

BORROWING POLICY

2025/26 BUDGET (JUNE 2025)



Table of Contents

1. DEFINITIONS	3
2. PROBLEM STATEMENT	5
3. DESIRED OUTCOME	5
4. STRATEGIC INTENT	6
5. ROLE PLAYERS AND STAKEHOLDERS	6
6. REGULATORY CONTEXT	7
7. OPTIONS FOR RAISING OF EXTERNAL DEBT	7
8. ASSESSMENT OF FUNDING REQUIREMENTS	7
9. FINANCIAL RESOURCES	8
10. RAISING OF EXTERNAL DEBT FOR FUTURE FINANCING OF CAPITAL EXPENDITURE	8
11. COMPLIANCE WITH FINANCIAL INSTITUTION REQUIREMENTS	8
12. COMPLIANCE WITH MUNICIPAL REGULATIONS ON DEBT DISCLOSURE	9
13. BORROWING PROCESS	9
14. NOTIFICATION TO NATIONAL TREASURY	10
15. INTEREST RATE RISK	10
16. CURRENCY RISK	10
17. MONITORING, EVALUATION AND REVIEW	10



1. DEFINITIONS

In this Policy, unless the context indicates otherwise -

“accounting officer” means a person appointed in terms of section 54A of the Municipal Systems Act (Act No. 32 of 2000). The Municipal manager is the accounting officer within the municipal context.

“capital programme” means the capital budget as included in the City’s Medium Term Revenue and Expenditure Framework (MTREF);

“City” or “City of Cape Town” means the City of Cape Town, a municipality established by the City of Cape Town (Establishment Notice No. 479 of 22 September 2000, issued in terms of the Local Government: Municipal Structures Act, 1998) or any structure or employee of the City acting in terms of delegated authority;

“council” means the Municipal Council of the City;

“CFO” means the Chief Financial Officer of the City;

“delegated authority” means any person or committee delegated with authority in terms of legislation, regulatory framework and/or the City’s System of Delegations.

“disclosure statement” means a statement issued or to be issued by the Municipality which intends to incur debt by issuing municipal debt instruments;

“financial year” is the 12-month period between 1 July and 30 June.

“financing agreement” means any loan agreement, facility agreement, lease, instalment, purchase arrangement under which the City undertakes to repay a short-term and long-term debt over a period of time;

“IDP” means the Integrated Development Plan of the City of Cape Town, which sets out the strategic and budget priorities adopted by the Council of the City of Cape Town in terms of section 25(1) of the Municipal Systems Act (Act No. 32 of 2000).

“juristic person” means a body of persons, a corporation, a partnership, or other legal entity that is recognised by law as the subject of rights and duties;

“lender” means a juristic person who provides debt finance to the City;



“loan covenant” means a condition in an agreement relating to a loan or bond issue that requires the borrower to fulfil certain conditions or which forbids the borrower from undertaking certain actions, or which possibly restricts certain activities to circumstances when other conditions are met. Violation of a covenant may result in a default on the loan being declared, penalties being applied, or the loan being recalled;

“long-term debt” means debt repayable by the City over a period exceeding one (1) year;

“Municipal Finance Management Act (MFMA)” means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

“Municipality” means the City of Cape Town;

“municipal debt” means:

- a) a monetary liability or obligation on a City by -
 - i) a financing agreement, note, debenture, bond or overdraft; and
 - ii) the issuance of municipal debt instruments; and
- b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

“official” means:

- (a) an employee of a municipality or municipal entity;
- (b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee; and
- (d) excludes an Accounting Officer as defined in the MFMA.

“short-term debt” means debt that is repayable over a period not exceeding one (1) year;



2. PROBLEM STATEMENT

- 2.1 Considering the size of the City's capital programme, borrowing (both short-term and long-term) is an important element to obtain additional funding sources to fund the municipal capital programme over the Medium Term Revenue and Expenditure Framework (MTREF).
- 2.2 Given that a large portion of municipal infrastructure has a long-term economic life and the general principle that current ratepayers should not pay for an asset in the short-term that is to be used by future ratepayers during the life of the asset, there is a strong economic argument to finance this capital expenditure through long-term borrowing in order to accelerate the pace of delivery and to mirror the repayment of funds with the economic life of the asset. The economic life of assets should always be equal to or longer than the tenure of the debt finance.
- 2.3 It would be appropriate for the City to adopt a borrowing policy which shall be consistent with the MFMA and its regulations.

3. DESIRED OUTCOME

- 3.1 This Policy, in line with sections 19, 45, 46 and 47 of the MFMA, sets out the procedures to be followed in sourcing funding from external financial service providers.
- 3.2 The objectives of the policy are to:
 - a) enable the City to exercise their obligation to ensure sufficient cash resources to implement the capital programme in the most effective manner;
 - b) ensure compliance with the relevant legal and statutory requirements relating to municipal borrowing;
 - c) govern the taking up of short-term and long-term debt according to the legislative framework;
 - d) manage interest rate and credit risk exposure;
 - e) maintain debt within specified limits and ensure adequate provision for the repayment of debt; and
 - f) maintain financial sustainability.
- 3.3 All borrowings made by the City must be in accordance with this policy and with any regulations promulgated by national government.



4. STRATEGIC INTENT

- 4.1 The City's five-year IDP (2022-2027) identifies six priorities and three foundation areas, which support the vision of creating a City of Hope and provide a solid foundation for the articulation of service delivery and within which the City has identified linked objectives and programmes. The priorities and foundation areas are:

PRIORITY

- (a) Economic growth;
- (b) Basic services;
- (c) Safety
- (d) Housing;
- (e) Public space, environment and amenities; and
- (f) Transport.

FOUNDATION

- 1. A resilient City;
- 2. A more spatially integrated and inclusive City;
- 3. A capable and collaborative City government;

- 4.2 This policy supports the following foundation, objective and programme:

- (a) Foundation 3: A capable and collaborative City government
- (b) Objective 16: A capable and collaborative City government; and
- (c) Programme 16.1: Operational sustainability programme.

- 4.3 This programme aims to ensure financial sustainability and procurement excellence

5. ROLEPLAYERS AND STAKEHOLDERS

- 5.1 The CFO is responsible for determining the financing needs of, and the strategy for raising finance in terms of this policy for, the City, in consultation with the Budget and Treasury Departments.
- 5.2 The process for obtaining external loan funding for the City falls exclusively within the functional area of the Treasury Department of the Finance Directorate, who are thus responsible for the implementation of this policy.



6. REGULATORY CONTEXT

6.1 The legislative framework governing borrowing is informed by the following legislation:

- a) Local Government Municipal Finance Management Act, (Act 56 of 2003) (MFMA);
- b) Municipal Regulations on Debt Disclosure, Regulation R492, published under Government Gazette 29966, 15 June 2007; and
- c) JSE Debt Disclosure Regulations, when applicable.

7. OPTIONS FOR RAISING OF EXTERNAL DEBT

7.1 The following are the possible methods of raising external debt, namely:

- a) Raising of project-specific loans through financial services providers;
- b) Raising of a non-project specific loan for a particular financial year (balance sheet funding);
- c) Raising of bonds on the bond market;
- d) Appointing a financial services provider as sole financier to the City for a period not exceeding three (3) financial years; and
- e) Use of the City's overdraft facility from its appointed banker (short-term funding)

7.2 A combination of any or all of the abovementioned methods of raising external debt could be utilised over a period of time.

8. ASSESSMENT OF FUNDING REQUIREMENTS

8.1 Funding requirements for the capital programme, together with an assessment of the funding sources, must -

- a) be determined annually;
- b) take into account a multi-year period; and
- c) be done in order to determine the adequacy of available funding sources.

8.2 The City must take into account how funding decisions affect the operating budget for the multi-year period, which will include the long-term impact on tariffs.



9. FINANCIAL RESOURCES

- 9.1 A full analysis of all cash reserves and forecasts is required prior to borrowing to ensure the most cost-effective method of financing.

10. RAISING OF EXTERNAL DEBT FOR FUTURE FINANCING OF CAPITAL EXPENDITURE

Budgeted Financial Plan

- 10.1 On an annual basis, the CFO must, in consultation with the Budget and Treasury Departments, assess the City's financial requirements and determine the amount of funds that need to be raised from external financial institutions to fund the capital programme. The assessment must be made in conjunction with the MTREF, which is approved by Council.
- 10.2 Consideration must be taken of the limitations per the capital and operating budgets and the expected impact that any external debt raised or financial plan implemented may have on the budget. The impact must be included in the budget.
- 10.3 The City's standard budgeting process must be followed when assessing the funding requirements of the City and the need for long-term funding from external sources.

11. COMPLIANCE WITH FINANCIAL INSTITUTION REQUIREMENTS

11.1 Financial Ratios

- a) Where it has been decided that funding will be sourced externally, the financial institution may, when considering an application for external debt from the City, take certain ratios into consideration with reference to MFMA Circular 71.
- b) The ratios will be monitored by the relevant departments to whom the ratios are applicable in collaboration with the Treasury Department, to ensure that the City is able to meet its requirements to access external debt from financial institutions of its choice.



- c) Where these performance levels, relating to the financial ratios, are not attained, corrective action by the relevant departments to whom the ratios are applicable in collaboration with the Treasury Department, will be taken to prevent non-adherence to the loan covenants.

11.2 Loan Covenants

- a) The Treasury Department will monitor the qualitative and quantitative covenants required by lenders and ensure compliance with these over the terms of the loans acquired, to avoid additional borrowing costs.

11.3 Credit rating

- a) The CFO is responsible for securing and maintaining an appropriate, and as favourable as possible, credit rating from a recognised, reputable credit rating organisation.
- b) Supply Chain Management procedures must be followed in evaluating and appointing an appropriate credit rating agency.

12. COMPLIANCE WITH MUNICIPAL REGULATIONS ON DEBT DISCLOSURE

12.1 The Municipal Regulations on Debt Disclosure, 2007, states that whilst the City is party to a municipal debt instrument:

- a) It has to have a credit rating in place which must be reviewed annually by an independent credit rating institution until the debt has been redeemed (Regulation 6); and
- b) It must, annually, within 90 days after the end of the financial year until the debt instrument has been repaid, prepare a consolidated disclosure statement (Regulation 14).

13. BORROWING PROCESS

13.1 The Borrowing process will be effected in terms of Chapter 6 of the MFMA.



14. NOTIFICATION TO NATIONAL TREASURY

- 14.1 The MFMA requires the City to invite the National Treasury (hereafter referred to as “NT”), the relevant provincial treasury and the public to submit written comments or representations to the council in respect of the raising of any proposed debt through borrowing or any other instrument (refer to section 46 of the MFMA).
- 14.2 To expedite this process and to enable the NT and relevant provincial treasury to provide informed comments, the City is requested to supply information, including the signed Certification for Long-Term Borrowing, as stipulated by MFMA Circular 26, along with the invitation for comment. Failure to provide this information may delay the process.

15. INTEREST RATE RISK

- 15.1 Interest rates are to be fixed at an optimal rate unless it can be shown that a variable rate can provide better cost-efficiency.
- 15.2 Should funding be acquired at a variable rate, and an option to fix the rate at a later stage has been included in the funding agreement, the CFO shall fix the rate when this is deemed favourable for the City.

16. CURRENCY RISK

- 16.1 Debt (both short-term and long-term) may only be incurred if it is denominated in Rand and not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency, as stipulated by MFMA Section 47(a).

17. MONITORING, EVALUATION AND REVIEW

- 17.1 The policy will be monitored by the Treasury officials annually and may be amended as required.